DOCKET FILE COPY ORIGINAL

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	CC Docket No. 92-296
Simplification of the	)	
Depreciation Prescription Process	)	

RECEIVED

APR 13 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

GTE's REPLY COMMENTS

GTE Service Corporation and
its affiliated domestic
telephone operating companies

Richard McKenna, HQE03J36
GTE Service Corporation
P.O. Box 152092
Irving, TX 75015-2092
(214) 718-6362

Gail L. Polivy
1850 M Street, N.W.
Suite 1200
Washington, DC 20036
(202) 463-5214

April 13, 1993

Their Attorneys

TABLE OF CONTENTS

PAGE

SUMMARY ii

BACKGROUND 1

DISCUSSION 2

1. GTE recommends the *Price Cap Carrier Option* 2

2. Adoption of the *Price Cap Carrier Option* will not result in loss of data.......... 3

3. Adoption of the *Price Cap Carrier Option* will permit the Commission to carry out its statutory responsibilities 5

SUMMARY

The simplification proposed in the *Notice* would be an important step towards reform of the depreciation process. The proposed *Price Cap Carrier Option* is unique among the options in that it would best reflect the reality of market changes and Price Cap regulation. This preferred option addresses an inconsistency in current regulation by establishing a firm and logical linkage between Price Cap regulation and the depreciation prescription process. Predicated on a carrier being responsible for its own capital investment decisions, the *Price Cap Carrier Option* is consistent with the Communications Act in affording all parties a chance to participate and be heard while eliminating extensive and costly administrative procedures not justified by the results.

Of the proposed options, it results in the most significant savings by reducing the costs of conducting depreciation studies and placing the focus of such studies where it belongs: on estimation of the impact of future technologies, competition, and business change. Adoption of the *Price Cap Carrier Option* would ultimately benefit consumers and shareholders by providing exchange carriers incentives for investment consistent with the competitive market.

GTE urges the Commission to adopt the *Price Cap Carrier Option*.

RECEIVED

Before the
FEDERAL COMMUNICATIONS COMMISSION

DISCUSSION

1. GTE recommends the *Price Cap Carrier Option.*

GTE believes the Commission's effort to simplify the depreciation process is both warranted and timely. Now is the time to address the problem of governmental constraints on industry capital recovery. The *Price Cap Carrier Option,* the only option that establishes a firm and logical linkage between Price Cap regulation and depreciation prescription, is vastly superior to the other options.

Commenting parties were virtually in accord in expressing a desire and need for depreciation process simplification. However, they were far from agreeing as to which one of the proposed options was the most appropriate vehicle for achieving that simplification. Local exchange carriers[1] ("LECs" or "exchange carriers") say the *Price Cap Carrier Option* is the best way to achieve simplification. This option, the exchange carriers maintain, provides the most significant simplification and the greatest cost savings.

Most of the commenting parties that opposed the *Price Cap Carrier Option* favored the *Basic Factor Range Option.* Their opposition focused on such concerns as possible loss of accounting data available through the current process, possible exchange carrier manipulation of depreciation expense to produce a desired level of earnings, and the supposed abdication of the Commission's statutory authority to prescribe depreciation rates. GTE's reply comments will show these concerns are

---

1 *See* United States Telephone Association ("USTA") at i, U S WEST Communications, Inc. ("US WEST") at ii, BellSouth Telecommunications, Inc. ("BellSouth"), Southwestern Bell Telephone Company ("SWBT") at i, Ameritech Operating Companies ("Ameritech") at 1, Bell Atlantic telephone companies ("Bell Atlantic") at 2, United Telephone - Southeast, Inc. ("United") at 1, New England Telephone and Telegraph Company and New York Telephone Company ("NYNEX") at 1, Cincinnati Bell Telephone Company ("CBT") at 3, Pacific Bell and Nevada Bell ("Pacific") at iii, Southern New England Telephone Company ("SNET") at ii, and GTE at ii.

unfounded; that adoption of the *Price Cap Carrier Option* will best achieve the objectives of the Commission identified in this proceeding.

2. Adoption of the *Price Cap Carrier Option* will not result in loss of data.

Several commenting parties express concern that Commission adoption of the *Price Cap Carrier Option* will result in the loss of data needed to administer the depreciation prescription process. They are concerned about continued maintenance of detailed property records,[2] the need for "precise" data for rate prescriptions and the loss of analytical data,[3] and depreciation rate decisions made without a supporting basis.[4]

For good reasons, the Commission should be confident exchange carriers will continue to maintain Continuing Property Record ("CPR") data. To start with, Part 32 of the Commission's rules requires maintenance of this data. Also, although there are severe limits on the value of historical data in predicting the future life characteristics of carrier plant in a dynamic industry, this data does represent one of several tools a prudent business should employ in making its depreciation decisions.

As for concerns about the "precision" associated with historical data, Bell Atlantic (at 5) correctly observes that the Commission's current approach to depreciation has bogged down into an exercise in false precision. Reams of historical data are collected and analyzed. And yet, as Bell Atlantic points out (*id.*), the most critical variables affecting the remaining lives of carrier assets -- the availability of new technology and

---

2 *See* National Association of Regulatory Utility Commissioners ("NARUC") at 7, Public Utilities Commission of the State of California (the "California commission") at 3, Public Service Commission of Wisconsin (the "Wisconsin commission") at 2, and the State Consumer Advocates at 6.

3 State Consumer Advocates at 11, Public Utility Commission of Texas (the "Texas commission") at 1.

4 State Consumer Advocates at 22, New York State Department of Public Service (the "New York commission") at 12.

the development of competition – are simply not susceptible to a detailed mathematical calculation.

In real terms, reliance on historical data does not enhance the *precision* of life estimates or make them more meaningful. BellSouth (at 12) cites former Commissioner Joseph Fogarty's sound observation that mortality analysis can make an accurate determination of the number of years retired plant was used before retirement, but it cannot accurately predict changes in the life cycle. Belief that real precision can be attained by relying on historical data is simply illusory.

Should the FCC adopt the *Price Cap Carrier Option*, the Commission will have sufficient information to determine if depreciation rates are reasonable. For example, the Commission will be able to compare rates for all exchange carriers under its jurisdiction. USTA (at 27) observes that the Common Carrier Bureau requires an annual submission as part of Tariff Review Plans of a detailed six-page schedule of depreciation information. Moreover, the FCC will have data available through its Automated Reporting Monitoring Information System ("ARMIS"). ARMIS Reports 43-01, 43-02, 43-07, and 43-08 are submitted throughout the year and furnish information on financial and operating data, Uniform System of Accounts ("USOA") information, infrastructure spending, and operating data.

A constructive suggestion of United (at 5) envisions a process where Price Cap carriers would file summary statements, provided currently as part of the Commission's triennial depreciation study process, on an annual basis. These summary statements would contain information on the key dimensions of depreciation, including such items as investment levels, remaining life, future net salvage, reserve ratios, rates, and changes in accruals. And of course the Commission will have the same ability it has now to request additional information about carrier-proposed rates should the Commission be unable to assure reasonableness of proposed rates based on information on the record.

In summary: Under the *Price Cap Carrier Option*, the FCC's record will be more than adequate to permit the Commission to make certain a carrier's proposed rates are reasonable.

3. Adoption of the *Price Cap Carrier Option* will permit the Commission to carry out its statutory responsibilities.

GSA (at 3) urges the Commission to continue detailed regulation of exchange carrier depreciation rates. The state regulatory commissions of Missouri (at 5), Wisconsin (at 7), Idaho (at 6), and Indiana (at 7) suggest the FCC will not be able to meet its statutory responsibilities without a detailed review of data.

GTE (at 4-5) shows that Commission adoption of the *Price Cap Carrier Option* is entirely consistent with the Communications Act and will permit the FCC to carry out its responsibilities. The mechanisms by which the Commission carries out its statutory assignment are within its sound discretion. To implement Section 220(b) of the Act, the Commission is free to adopt rules it determines to serve the public interest.

As noted by US West (at 8), nothing prohibits the Commission from treating Price Cap carriers as a separate depreciation class. SWBT (at 10) maintains the requirements of Section 220(i) of the Act will be met when a carrier's proposed rates are placed on Public Notice and concerned parties are given the opportunity to submit comments. Pacific (at 10) stresses that the Commission's ability to fulfill its statutory obligation to insure reasonable rates will be undiminished; and that the Commission will still ultimately prescribe the depreciation rate, its deliberations commencing with rates proposed by the carrier.

USTA (at 11) makes the helpful suggestion of employing a notice and comment process that would lead to prescription of rates as contemplated by the Act. The Commission would assess filings made in response to the Public Notice, would consider views and recommendations of such responding parties as state commissions, and would evaluate the reasonableness of a carrier's proposals in light of those findings. Such a process would be far removed from any notion of a "rubber stamp" of carrier requests.

In summary: Commission adoption of the *Price Cap Carrier Option* would permit the FCC to carry out its statutory responsibilities.

4. Adoption of the *Price Cap Carrier Option* does not provide incentives for exchange carriers to manipulate depreciation expense.

The state regulatory commissions of California (at 9) and Virginia (at 2), in opposing Commission adoption of the *Price Cap Carrier Option*, (i) express concern that the option provides incentives for exchange carriers to manipulate depreciation expense, and (ii) suggest the time has not yet come to offer this option to exchange carriers. NARUC (at 12) charges that, under any form of earnings regulation, there is a potential incentive to manipulate depreciation expense to produce a desired level of earnings. The Idaho commission (at 7) even suggests exchange carriers would intentionally implicate the sharing mechanism under Price Caps.

GTE (at 7-8) has shown that the Price Cap sharing mechanism would not materially affect exchange carrier depreciation decisions. Exchange carriers are in any event subject to the overarching obligation of complying with Generally Accepted Accounting Principles ("GAAP") – made applicable by Parts 32 and 64 of the Commission's Rules. Exchange carrier decisions must be driven by the needs of the network and the demands of customers. A carrier must be focused on the deployment of technology to satisfy customers. Departing from carefully developed investment planning for the sake of transitory "sharing" benefits would be nonsensical.

Bell Atlantic (at 9) makes the constructive suggestion that the Commission consider two practical requirements in order to address concerns of depreciation expense manipulation: Exchange carrier depreciation rate filings (i) could be limited to one per calendar year, and (ii) could be made in the first quarter of the year with new rates effective retroactively to the first of the year. This would be an effective protection because it would guard against the perceived risk that a carrier would adjust its depreciation expense late in the year to offset earnings that would lead to sharing obligations. GTE is happy to endorse Bell Atlantic's suggestion.

United (at 7) points out a carrier that over-recovers through aggressive depreciation rates, while not reinvesting in its network, will overearn in future years as its rate base shrinks in comparison to revenues. On the other hand, underdepreciation inflates the current rate base, and combined with failure to make necessary plant investments would make the carrier competitively vulnerable in the future. A carrier that is not balancing the use of its resources over time to promote either optimum investment or earnings exposes itself to adverse competitive forces. In the long run, the carrier incentive is to match depreciation expense with the revenue-producing life of investments -- just what depreciation is supposed to do.

GTE adds to United's excellent observation *supra* about a problem created by underdepreciation (inflation of the current rate base) that it would also prevent the carrier from achieving productivity improvements.

In summary: GTE maintains the Price Cap sharing mechanism should not preclude adoption of the *Price Cap Carrier Option*. As described previously, safeguards are built into the system to address all of the concerns that have been raised.

5. State concerns about FCC depreciation decisions affecting their prescription processes are unwarranted in light of the *Louisiana* decision.

The state regulatory commissions of Missouri (at 3), Nebraska (at 2), and Texas (at 4-5) express concern that Commission adoption of the *Price Cap Carrier Option* will adversely affect state depreciation practices and processes. They claim dependence on the FCC with regard to depreciation processes and that adoption of this option will have results that may not fit their regulatory system.

Pursuant to the Supreme Court's decision in *Louisiana Public Service Commission v. FCC*,[5] the depreciation prescriptions of the FCC are not binding on state commissions, which prescribe their own depreciation rates and practices. The position of the states before the Supreme Court was that they should not be governed by FCC decisions. That position was upheld. No state commission is obliged to follow the FCC on depreciation.

The FCC's adoption of the *Price Cap Carrier Option* creates no conflicts with state regulation and does not prevent the states from continuing to issue their own intrastate depreciation rate prescriptions as in the past, or from developing modified processes that better accommodate their regulatory schemes. The FCC will continue to seek and receive input from the states, and to take that into account in taking action on depreciation. The only difference is a more efficient procedure will be employed.

In summary: State concerns with their procedures should not deter the FCC from proceeding with depreciation reform. It certainly should not deter the Commission from selecting the most efficient option, the *Price Cap Carrier Option*.

6. The Commmission should reject CCTA's arguments designed to obstruct reform.

The California Cable Television Association ("CCTA") offers a study contrasting some randomly selected Price Cap carriers' depreciation expense to net plant additions for the period 1987-1991. The implicit assumption of CCTA's study is that there is supposed to be a dollar-for-dollar relationship between depreciation expense in a particular year and investment in new facilities in a particular year. Where that dollar-for-dollar relationship does not exist, CCTA claims something is amiss. But in fact there is no principle that requires such a dollar-for-dollar relationship. Suppose the Vice President -Network Investment of a company said: "The company will accrue one

---

5 476 U.S. 355 (1986).

million dollars in depreciation this year; therefore the company should spend one million dollars on plant investment." That Vice President should be fired, for he is applying to his key decisions factors that are completely irrelevant. His decision on how much to spend on plant investment that year should depend on such factors as the service needs of the company, getting the best use out of new technology, the demands of customers and regulators, competitive challenges, staging in an investment program in relation to the capital markets, and so forth. This might lead to spending twice as much as the depreciation amount for that year, or half as much. To insist there should be a set relationship is completely invalid.

The relationship that matters is between recovery of invested capital, *i.e.*, depreciation policy, and the capital markets' estimate of the riskiness of investment in the firm. If -- because of regulatory decisions or management decisions -- there is a pattern of underrecovery of capital, the capital markets as they perceive this pattern will be more reluctant to invest.

The *Notice* (8 FCC Rcd at 147) comments on the "considerable change" in the telecommunications industry, *i.e.*, "significant competition in the interexchange market, emerging competition in the local exchange market, and more rapidly changing technology." It adds (*id.*): "Our price cap plan encourages carrier efficiency without allowing [carriers] to pass depreciation expense changes onto ratepayers." "Thus," the *Notice* observes (*id.*), "the scrutiny [of depreciation] necessary under rate of return/rate base regulation may be relaxed under price cap regulation." Noting the industry-cited cost of regulating depreciation at $35 to $50 million annually, and in "light of market and regulatory changes and the alleged high cost of depreciation analysis," the Commission (*id.* at 148) began this proceeding "to determine whether our detailed prescription process is necessary." This correctly identifies what is involved in this proceeding, rather than the false relationship between investment and depreciation that CCTA's study assumes.

Exchange carriers are faced with an imperative: network modernization that must continue indefinitely. Indispensable to the investment program required for modernization is the likelihood -- no longer (if ever) a guaranty -- of capital recovery in a competitive market in which the binding element is far more likely to be competition than a regulatory limit on earnings.

Depreciation process reform is needed to allow carriers a reasonable opportunity to recover investment made under regulation while balancing new technology investment and pricing decisions required to be viable market competitors. Put more simply, reform will afford carriers the kind of ability to address depreciation needs their competitors already have.

CCTA represents firms whose depreciation policies have not been subject to regulation, firms that are understood to have depreciated on the basis of useful lives far shorter than those permitted telephone companies.[6] And yet CCTA would deny exchange carriers the latitude granted to CCTA's membership.

The Cable Television Consumer Protection and Competition Act of 1992 is based on Congressional findings on the dominant market power of the cable industry.[7] Exchange carriers facing competition ask for the freedom to do what their competitors do. CCTA would not only have exchange carriers denied that freedom; they would deny LECs facing serious competitive challenges the latitude available to cable television firms that typically enjoy exclusive franchises. They would create a still greater asymmetry by opposing depreciation reform for exchange carriers and slowing the reform process to a snail's pace.

---

6 *See* BellSouth at 18 which indicates the rate of depreciation employed by the cable television industry averages about fourteen percent annually, as compared to between seven and eight percent for the large exchange carriers.

7 Cable Television Consumer Protection and Competition Act of 1992, Pub. L. No.102-385, 106 Stat. 1460, Section 2(a).

The Commission should not entertain arguments by CCTA that exchange carriers should be prevented from adopting depreciation policies, procedures and rates employed by the CCTA membership, or that there should be reimposed on exchange carriers depreciation practices that directly conflict with what is being done by CCTA's members.

In summary: The depreciation reform under consideration in this proceeding is an important step toward permitting exchange carriers to face competitive challenges and rapidly moving technology. The Commission should reject CCTA arguments designed to obstruct reform.

7. The proposed *Price Cap Carrier Option* is appropriate for both AT&T and exchange carriers.

Taking a position similar to CCTA's, AT&T would deny exchange carriers latitude enjoyed by AT&T itself. AT&T endorses the Commission's efforts to simplify depreciation procedures with respect to both AT&T and exchange carriers. However, AT&T (at 8) wants the *Price Cap Carrier Option* applied to itself but denied to exchange carriers.[8]

AT&T (at 8-9) insists this totally different treatment is justified by differences in competition. But exchange carriers today face a tremendous increase in competition. The Commission's decision requiring colocation in CC Docket No. 91-141 ("D.91-141") for special access[9] -- and apparent intent to apply this same policy to switched access[10]

---

8 AT&T has filed a Petition for Waiver (AAD 93-18, filed January 27, 1993) ("Petition") concerning the application of the Commission's depreciation methods and procedures. The Petition asks the FCC to waive application of its depreciation methods and procedures in regard to the calculation and recording of AT&T's regulated depreciation expense.

9 *Expanded Interconnection with Local Telephone Company Facilities*, D.91-141, 7 FCC Rcd 7369 (1992) *denial of stay*, 8 FCC Rcd 123 (1992), *modified*. 8 FCC Rcd

– means a new world. Exchange carriers must contend with competitors unencumbered by regulation in the furnishing of every aspect of telecommunications. This runs from Enhanced Services to network services, from Competitive Access Providers to Interexchange Carriers such as AT&T, from suppliers of Customer Premises Equipment in competition with LEC network services to bypass providers of every kind. *See* Peter W. Huber, Michael K. Kellog, and John Thorne; *The Geodesic Network II: 1993 Report on Competition in the Telephone Industry*, The Geodesic Company, Washington, D.C., 1992, at 2.25. And this is not limited to metropolitan areas. The same picture emerges from an examination of such relatively dispersed areas as GTE's service area in Wisconsin – as demonstrated in a recent study.[11]

Technology is having a dramatic effect on exchange carriers and their customers, just as it is affecting AT&T and its customers. Technological changes involve the plant of exchange carriers and of AT&T in virtually identical fashion: shortening its useful life. AT&T and exchange carriers have the same need: to be able to address depreciation as free of regulatory constrictions as their competitors.

In summary: Exchange carriers and AT&T are similarly situated. Depreciation process reform should extend to both. The *Price Cap Carrier Option* should be adopted for both AT&T and exchange carriers.

8. Estimated GTE cost reductions are based on careful study.

MCI (at 4) questions the claimed level of cost reductions that would follow from depreciation process reform. MCI (at 4) even insists exchange carriers have failed to

---

[10] D.91-141, Second Notice of Proposed Rulemaking, 7 FCC Rcd 7740 (1992).

[11] *See* E.C. Beauvais, "Local Exchange Service: Where is Competition Taking Us?", Paper presented to 23d Annual Conference of the Institute of Public Utilities, Michigan State University, December 11, 1991, publication forthcoming.

demonstrate the administrative depreciation costs they incur are greater than those of any non-regulated business.

GTE's cost reduction estimates, included in estimates furnished by USTA, are based on careful study. They represent costs that would be completely eliminated by streamlining the regulatory process and would be a significant reduction to GTE's total depreciation process expenses. They represent real, tangible hours of staff time that will not have to be expended in meeting the many administrative requirements of the Commission's depreciation study guide, reconciling and formatting various types of account study data for electronic transfer, and analyzing historical data of questionable import. These costs reductions can only be achieved through reform of the current process, most significantly through adoption of the *Price Cap Carrier Option.*

In estimating its cost reductions, GTE made assumptions concerning scope of application (all options were assumed to be applicable to all accounts), content of revised filing requirements, and the administrative-analytical methods GTE would need to employ in order to develop future depreciation rates.[12]

Many costs incurred as part of the current depreciation prescription process were found to be unnecessary if the *Price Cap Carrier Option* is adopted -- and to a lesser degree if either the *Basic Factor Range Option* or the *Range of Rates Option* is adopted. Virtually all of these unnecessary costs can be avoided by non-regulated businesses. As BellSouth (at 37) observes, the non-regulated companies covered by the 1986 survey by Ernst and Whinney done for USTA determine their depreciation requirements utilizing the equivalent of one middle management employee man-year. GTE maintains reduction of these unnecessary depreciation prescription process costs is in both GTE's and the general public's interest.

---

[12] GTE's estimates of cost reductions did not include items that will continue to be required, such as Part 32 plant accounting costs.

MCI (at 9) argues the Commission should "delay any modification of the depreciation process until the current four year price cap trial has ended." The arguments MCI presents are rife with internal conflicts.

For example: MCI (at 5) contends the potential increase in carrier depreciation expense was not contemplated when Price Cap rules were formulated, and the increased flexibility the Commission anticipates its proposed options will provide LECs is not contained in current LEC productivity factors. Whatever depreciation expense increases result from adoption of any of the proposed options will be treated as endogenous under established FCC policy, and thus cannot be used to justify price increases. MCI (at 4) views any claims by LECs that savings will be significant with "acute skepticism," and (at 5) portrays LEC cost savings obtained through depreciation process reform as not significant -- by which MCI means they would amount to only .3676% of the total 1991 operating expenses of GTE and the Bell Operating Companies. At the same time, MCI (at 9) insists that tying any increased depreciation calculation flexibility to an increase in the Price Cap productivity factor is "critical."

MCI's circular and opportunist argument is the costs are trivial but action should be delayed until the productivity factor can be recalculated to reflect the impact of those trivial costs.

In fact, costs estimated at $35-50 million are not trivial. But in recalculation of the productivity factor, the impact of even this industrywide figure would be hard to find. Holding up depreciation process reform on these grounds would be completely unjustified.

In summary: The Commission should reject MCI's internally inconsistent arguments.

9. Either the *Range of Rates Option* or the *Basic Factor Range Option* would be better than existing processes.

Assuming the ranges or factors established would be reasonable, GTE finds merit in either the *Range of Rates Option* or the *Basic Factor Range Option.* While these two options are far inferior to the *Price Cap Carrier Option,* either one would represent a modest improvement over the present practice.

Recognition of the need for depreciation process simplification was evident in virtually all filed comments. Most commenting parties opposing the *Price Cap Carrier Option* suggest that adoption of the *Basic Factor Range Option* would be an improvement over existing processes.[13]

Proposals for development, review, and applicability of the basic factors were far from uniform. Some proposed ranges of basic factors only be developed for minor accounts (consisting of accounts that represent ten percent or less of the total depreciable plant investment of a carrier) or non-technology accounts.[14] Some proposed developing ranges from industry-wide data, representative of current Commission prescribed factors.[15]

GTE believes these options exhibit obvious shortcomings when compared to the *Price Cap Carrier Option.* They perpetuate an inconsistency between Price Cap regulation and depreciation prescription policy in that the Commission, not carriers, would establish the ranges or factors. This would not reflect the endogenous nature of

---

[13] State Consumer Advocates at 12, MCI at 2, NARUC at 6, Deloitte & Touche at 2, and the state regulatory commissions of California at 2, Missouri at 1, Virginia at 2, Michigan at 4, Wisconsin at 2, Tennessee at 1, New York at 10, Washington at 2, Idaho at 2, Nebraska at 2, Utah at 1, Indiana at 1.

[14] *See* comments of the state regulatory commissions of Texas (at 3), Idaho (at 24), Wisconsin (at 2), Tennessee (at 1), Virginia (at 3), Missouri (at 2), and California (at 3).

[15] California at 3, Michigan at 5, Indiana at 4.

depreciation expense changes and carrier responsibility for capital investment decisions as contemplated by the Commission.[16]

Reliance on current prescribed ranges or factors would be too historically oriented and would not address the influences of changing technologies and markets. The result is likely to be a pattern of carrier requests -- which would have to be supported by studies -- falling outside these parameters. This would represent simply a process change, not a step to reform.

That being said, either the *Range of Rates Option* or the *Basic Factor Range Option* could represent more than just a process change if administered on a different basis. While these options are clearly inferior to the *Price Cap Carrier Option*, GTE (at 12) acknowledges that either one would be a step in the right direction assuming that (i) the ranges established are reasonable and applied to all accounts, and (ii) there is a substantial reduction in the administrative information to be filed with the Commission.

Ranges must address all accounts to be effective. If not, these options become a hollow exercise and current carrier recovery deficiencies will continue to persist and grow. Further, the ranges must be sufficiently wide and based on carrier-proposed factors. This is the only way technology and market factors that are not addressed by the current process can be sensibly addressed. The use of current prescribed factors would allow current rates to dictate future results, when many of those current rates are known to be inadequate. This would lead companies to request numerous exceptions, and would render the range concept essentially meaningless.

Carrier-proposed factors represent an appropriate basis for establishing ranges. But they would require periodic review and update to reflect changes in technology, competition, and customer demand. GTE (at 9) proposed such an update on a five year cycle. This update would require forward-looking factors to be effective. As

---

[16] *Notice*, 8 FCC Rcd at 150.

United suggests (at 9), the Commission could employ independent outside analysis by accounting firms, technology forecasting services, telecommunications equipment manufacturers, and affected exchange carriers to develop benchmarks that would be used to update range factors. Though not as effective as the *Price Cap Carrier Option*, GTE believes adoption of either the *Range of Rates Option* or the *Basic Factor Range Option* would represent a definite improvement over existing processes.

Respectfully submitted,

GTE Service Corporation and
its affiliated domestic
telephone operating companies

Richard McKenna HQE03J36
GTE Service Corporation
P.O. Box 152092
Irving TX 75015-2092
(214) 718-6362

Gail L. Polivy
1850 M Street NW
Suite 1200
Washington DC 20036
(202) 463-5214

April 13, 1993

Their Attorneys

Certificate of Service

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "GTE's Reply Comments" have been mailed by first class United States mail, postage prepaid, on this 13th day of April, 1993 to all parties on the attached list.

Ann D. Berkowitz

Edward W. Addison
Director
Virginia State Corporation
Division of Communications
P. O. Box 1197
Richmond, VA 23209

Campbell L. Ayling
Attorney
NYNEX Operating Companies
120 Bloomingdale Rd.
White Plains, NY 10605

Bruce E. Beard
Attorney
Southwestern Bell Telephone Company
1010 Pine Street
Room 2114
St. Louis, MO 63101

Charles Beck
Assistant Public Counsel
Florida Office of Public Counsel
812 Claude Pepper Building
111 West Mochian Street
Tallahassee, FL 32399

Francine J. Berry
Attorney
American Telephone
and Telegraph Company
295 North Maple Ave.,
Room 3244J1
Baskin Ridge, NJ 07920

Ronald G. Choura
Chairman
Federal-State Joint Board Staff
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48910

Joan Clifton
Senior Engineer
Indiana Utility Regulatory Commission
Indiana Government Center South
302 West Washington Street
Suite E306
Indianapolis, IN 46204

William J. Cowan
General Counsel
New York State
Department of Public Service
Three Empire State Plaza
Albany, NY 12223

Scot Cullen
Administrator
Wisconsin Public Service Commission
4802 Sheboygan Avenue
P.O. Box 7854
Madison, WI 53707-7854

Elizabeth Dickerson
Attorney
MCI Telecommunications Corporation
1801 Pennsylvania Ave., N.W.
Washington, DC 20006

Ron Eachus
Chairman
Oregon Public Utility Commission
550 Capitol Street, NE
Salem, OR 97310-1380

Michael J. Ettner
Attorney
General Services Administration
Personal Property Division
18th & F Streets, N.W.
Room 4002
Washington, DC 20405

Alan J. Gardner
Vice President, Legal & Regulatory Affair
California Cable Television Association
4341 Piedmont Avenue
Oakland, CA 94611

Robert W. Gee
Chairman
Public Utility Commission of Texas
7800 Shoal Creek Boulevard
Austin, TX 78757

James T. Hannon
Attorney
US West Communications
1020 19th Street, N.W.
Suite 700
Washington, DC 20036

Linda D. Hershman
Vice President
Southern New England Telephone Company
227 Church St.
14th Floor
New Haven, CT 06510

Jay C. Keithley
Vice President, Lay/External Affairs
United Telecommunications, Inc.
1850 M Street, NW
Suite 1110
Washington, DC 20036

Barbara J. Kern
Attorney
Ameritech Operating Companies
30 South Wacker Drive
Chicago, IL 60606

Frank E. Landis
Chairman
State of Nebraska
Public Service Commission
300 The Atrium
Lincoln, NE 68508

Ellen S. LeVine
Attorney
California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102

Frank W. Lloyd
Mintz, Levin, Cohn, Ferris,
Glovsky & Popeo
701 Pennsylvania Avenue, NW
Suite 900
Washington, DC 20004-2608

Philip F. McClelland
Assistant Consumer Advocate
Pennsylvania Office of Consumer Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Martin T. McCue
Vice President/General Counsel
United States Telephone Association
900 19th Street, N.W.
Suite 800
Washington, DC 20006-2105

Michael McRae
Office of People's Counsel
District of Columbia
1133 15th Street, NW
Suite 500
Washington, DC 20005

W. Richard Morris
Attorney
United Telephone Operating Co.
Box 11315
Kansas City, MO 64112

Sharon L. Nelson
Chairman
Washington Utilities and
Transportation Commission
1300 S. Evergreen Park Dr., S.W.
P.O. Box 47250
Olympia, WA 98504-7250

Leo M. Reinbold
President
State of North Dakota
Public Service Commission
State Capitol
Bismark, ND 58505

Christopher W. Savage
Attorney
Bell Atlantic
1710 H Street, N.W.
Washington, DC 20006

Tim Seat
Indiana Office of Utility Consumer
100 N. Senate Avenue
Room N 501
Indianapolis, IN 46204

Marsha H. Smith
President
Idaho Public Utilities Commission
Statehouse
Boise, ID 83720-6000

Maribeth D. Snapp
Deputy General Counsel
Oklahoma Corporation Commission
Public Utility Division
400 Jim Thorpe Office Building
Oklahoma City, OK 73105

M. Robert Sutherland
Attorney
BellSouth Corporation
1155 Peachtree Street, N.E.
Suite 1800
Atlanta, GA 30367-6000